



# **Undergraduate Student Managed Fund Spring 2019 Portfolio Report Team Terrion-Wilkos**

Student Managed Fund

---

# Introduction

---

**Co-Lead Managers:** John Quevreaux and Samantha Martin

**Portfolio Manager:** Harrison Newman

**Communication Manager:** Zachary Yellen

**Web Manager:** Sharon Liu

Matthew Arons

August Densby

Austin Langer

Sharon Liu

Samantha Martin

Harrison Newman

Trent Nobile

Alana Phillips

John Quevreaux

Zachary Yellen

**Undergraduate Supervisor:** Patrick Terrion & Christopher Wilkos

**Fund Director:** Chinmoy Ghosh

---

# Portfolio Overview

---



## Philosophy

Managers invest with a 10-year time horizon to outperform the S&P 500 by finding investments that have been inefficiently valued by the market



## Investment Style

Managers use a research and bottom up security selection to find investments which are fundamentally undervalued by the market through financial modeling



## Strategy

Managers review their specific sector assignments to find companies with strong balance sheets and business models that have a sufficient margin of safety

---

# Investment Process

---

## Research and Model

- Careful financial research conducted in advance of investment decisions
- Analyze annual reports to prepare models such as DCF and DDM

## Stock Pitch Procedure

- Send out slide deck and model to managers in advance
- Engage in constructive discussion and answer any questions that arise

## Monitor and Rebalance

- Stay up to date with both individual position and market developments
- Reallocate capital if necessary
  - December 24<sup>th</sup> : added to all positions at a low point in the market

# Investment Process

## Key Points of Emphasis During Weekly Pitches:

### Competitive Advantage

- Is their recent success a fad or new trend?
- Example: Disney has strong brand loyalty and unparalleled customer experience



### Demand Potential

- How can a name brand company keep growing consistently?
- Example: AXP can benefit from the increasing use of cards globally

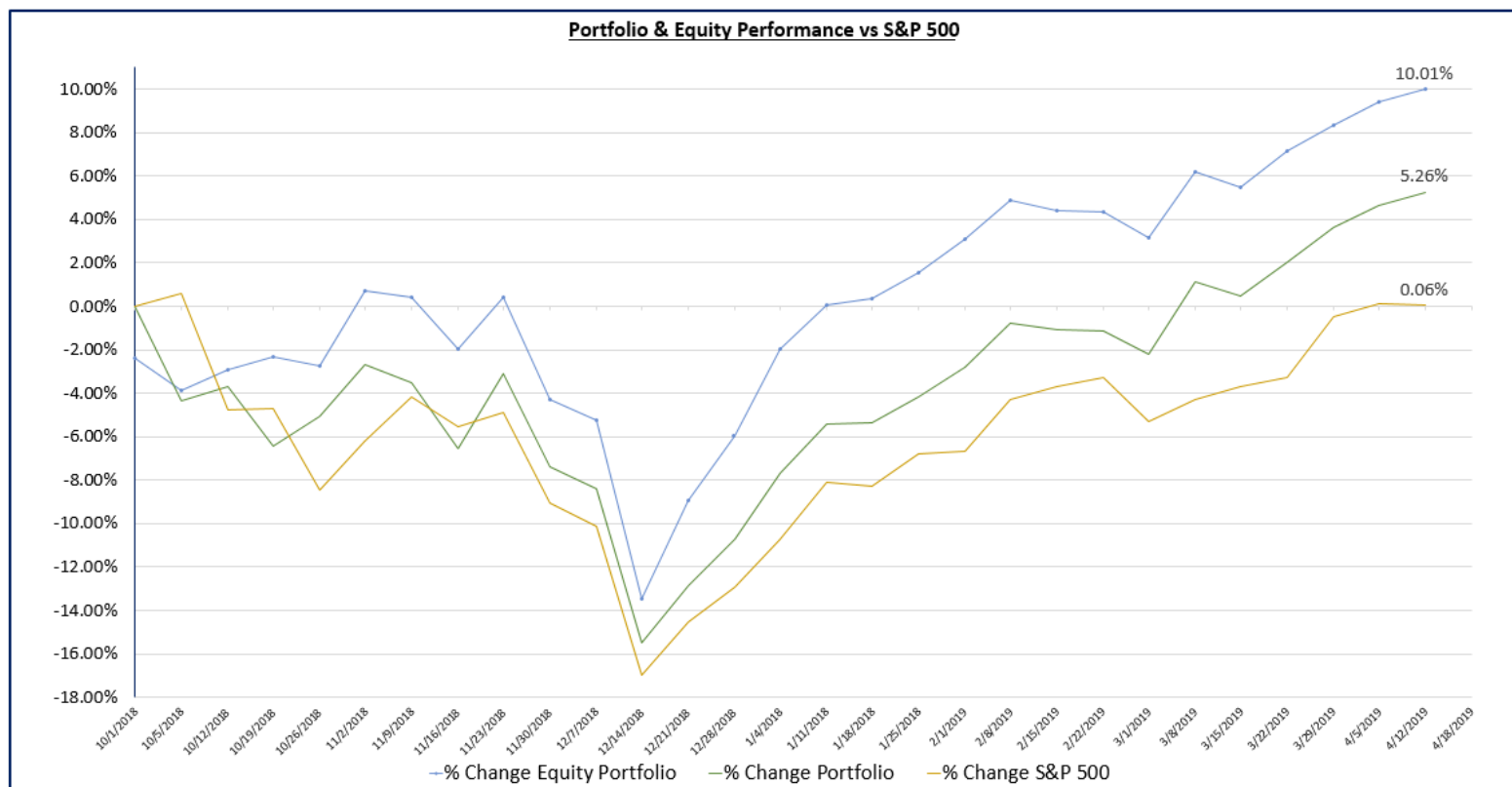


### Exposure to Long-term Trends

- SMF Managers consider all economic factors and business trends
- Example: CarMax in the ride-sharing space; Costco's moat against the Amazon effect



# Portfolio Performance



Undergraduate Portfolio			S&P 500 ETF (SPY)		
Beginning Value	\$	1,368,035	Beginning Value	\$	289.84
Current Value	\$	1,439,965	Current Value	\$	290.02
Absolute Change	\$	71,930	Absolute Change	\$	0.18
% Change		5.26%	% Change		0.06%
Difference in Performance			5.20%		

Equity vs. S&P 500 Performance	
Total Portfolio Performance	5.26%
S&P 500 Performance	0.06%
Equity Performance	10.01%

# Total Portfolio Unrealized Gains

Portfolio												
Ticker	Name	Sector	Dividend Yield	Date Purchased	Shares	Average Purchase Price	Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
SPY	SPDR S&P 500 ETF		1.83%	10/1/2018	-	\$ 289.84	\$ 290.02	\$ -	\$ -	0.00%	\$ -	0.06%
ULTA	Ulta Beauty Inc	Consumer Discretionary	0.00%	12/26/2018	285	\$ 271.17	\$ 350.88	\$ 77,283	\$ 100,001	6.94%	\$ 22,718	29.40%
AXP	American Express	Financials	1.41%	12/26/2018	1,079	\$ 106.27	\$ 113.67	\$ 114,665	\$ 122,650	8.52%	\$ 7,985	6.96%
DIS	Walt Disney Co.	Communication Services	1.40%	12/26/2018	835	\$ 114.36	\$ 132.45	\$ 95,487	\$ 110,596	7.68%	\$ 15,109	15.82%
EA	Electronic Arts	Technology	0.00%	12/26/2018	800	\$ 90.94	\$ 93.14	\$ 72,749	\$ 74,512	5.17%	\$ 1,763	2.42%
PLD	Prologis Inc	Real Estate	2.98%	12/26/2018	1,386	\$ 63.83	\$ 73.57	\$ 88,465	\$ 101,968	7.08%	\$ 13,503	15.26%
LMT	Lockheed Martin Corporation	Industrials	2.50%	12/26/2018	332	\$ 296.28	\$ 314.26	\$ 98,366	\$ 104,334	7.25%	\$ 5,968	6.07%
GOOG	Alphabet Inc. Class C	Communication Services	0.00%	12/26/2018	97	\$ 1,040.55	\$ 1,236.37	\$ 100,934	\$ 119,928	8.33%	\$ 18,994	18.82%
UNH	UnitedHealth Group Inc	Health Care	1.33%	1/31/2019	408	\$ 269.97	\$ 221.75	\$ 110,148	\$ 90,474	6.28%	\$ (19,674)	-17.86%
MSG	Madison Square Garden Co	Consumer Discretionary	0.00%	1/31/2019	268	\$ 276.34	\$ 308.20	\$ 74,060	\$ 82,598	5.74%	\$ 8,538	11.53%
COST	Costco Wholesale Corporation	Consumer Staples	1.08%	2/7/2019	356	\$ 209.00	\$ 245.81	\$ 74,404	\$ 87,508	6.08%	\$ 13,104	17.61%
KMX	CarMax, Inc	Consumer Discretionary	0.00%	2/7/2019	1,652	\$ 60.28	\$ 77.00	\$ 99,588	\$ 127,204	8.83%	\$ 27,616	27.73%
MSFT	Microsoft Corporation	Consumer Staples	1.70%	2/15/2019	1,022	\$ 107.62	\$ 123.37	\$ 109,989	\$ 126,084	8.76%	\$ 16,096	14.63%
CHTR	Charter Communications	Communication Services	0.00%	3/14/2019	321	\$ 353.34	\$ 359.37	\$ 113,424	\$ 115,358	8.01%	\$ 1,934	1.71%
BXP	Boston Properties	Real Estate	2.84%	4/4/2019	574	\$ 137.66	\$ 132.99	\$ 79,017	\$ 76,336	5.30%	\$ (2,681)	-3.39%
CASH	Cash				-		\$ 1.00		\$ 414	0.03%		
							Total	\$ 1,308,579	\$ 1,439,964.54	100.00%	\$ 131,718.50	5.26%

Sector	Target %	% of Total Portfolio	% of invested portfolio	S&P 500 Sector Weight	Sector Performance (Portfolio)	Sector Performance (market)	Difference in Performance
Basic Materials	2.00%	0.00%	0.00%	2.50%	0.00%	-2.15%	2.15%
Consumer Discretionary	15.00%	21.51%	21.52%	10.16%	10.78%	1.38%	9.40%
Consumer Staples	7.00%	14.83%	14.84%	6.74%	15.85%	6.13%	9.72%
Energy	7.00%	0.00%	0.00%	6.02%	0.00%	-8.73%	8.73%
Financials	12.00%	8.52%	8.52%	13.71%	6.96%	-3.92%	10.88%
Industrials	10.00%	7.25%	7.25%	9.73%	6.07%	0.96%	5.11%
Technology	15.00%	5.17%	5.18%	20.84%	2.42%	2.64%	-0.22%
Healthcare	10.00%	6.28%	6.28%	14.90%	-17.86%	-2.87%	-14.99%
Real Estate	7.00%	12.38%	12.39%	2.65%	7.28%	7.33%	-0.05%
Utilities	5.00%	0.00%	0.00%	2.82%	0.00%	7.94%	-7.94%
Communication services	10.00%	24.02%	24.03%	9.93%	12.15%	7.95%	4.20%
Cash		0.03%					
Total	100.00%	100.00%	100.00%	100.00%	10.01%		

## Risk Metrics

We place an emphasis on risk management by considering a significant margin of safety and stop loss orders for each position



---

## Lessons Learned

---

The case method taught in FNCE 4301 and 4303 along with actively managing over \$1 million develops a key set of soft and hard skills in all student managers:



### *Soft Skills*

- ✓ Higher level thinking
- ✓ Present and defend a thesis
- ✓ Working as a team to challenge each other



### *Hard Skills*

- ✓ Financial modeling: DCF, DDM, and Comparable
- ✓ Individual company analysis
- ✓ Data analysis: Bloomberg, Valueline, Thomson One Banker, IBISWorld

Thank You

# Appendix

## *Thesis*

We recommend ULTA based on:

- **Largest Beauty Retailer:** ULTA is the premier beauty destination for cosmetics fragrance, skin, hair care products and salon services
- **Unmatched Product Breadth:** Mix of high and low end products and beauty salon for “the beauty enthusiast”
- **Store Growth:** Increased its number of stores in the US by 10% in 2018

## *Risks*

- **Highly Competitive Markets:** ULTA competes against a diverse group of retailers, and Ulta Beauty receives margin pressure for same-store sales growth
- **Dependent on Subsidiaries:** ULTA is a holding company with no operations of their own and dependent on their subsidiaries earnings for cash
- **E-Commerce Threats:** Ulta.com encounters risks and difficulties frequently experienced by internet-based businesses

# American Express – Thesis & Risks



## *Thesis*

We recommend AXP based on:

- **Payments Industry Growth:** American Express's spend-centric business model will benefit from a positive macroeconomic outlook and the increased use of cards globally
- **Industry Leading Innovation:** American Express is staying above their competition with their improved rewards program, digital and mobile technology integration and capture of millennials
- **Premium Brand:** American Express will continue to benefit from their industry leading credit quality and closed loop business model

## *Risks*

- **Co-Branded Cards:** American Express's arrangements are entered into for a fixed period, generally ranging from five to eight years
- **Pricing Pressure:** In recent years, global weighted average merchant discount rate has been under increasing pressure
- **Credit Risk:** Provision for losses increasing in the industry

# The Walt Disney Company – Thesis & Risks



## *Thesis*

We recommend DIS based on:

- **Unique Business Model:** 4 interconnected business segments and branded entertainment across multiple segments
- **The Disney Experience:** Strong brand, loyal customer base, and low sensitivity to price changes
- **Direct-to-Consumer Launch:** ESPN Plus streaming service, 2019 launch of direct-to-consumer streaming platform, and Fox acquisition assets will provide large content base to help compete with other direct to consumer models (Netflix, Amazon, etc.)

## *Risks*

- **Economic Outlook:** Changes in U.S or Global economic conditions have an impact on consumer spending
- **Studio Entertainment:** Success of studio entertainment and direct-to-consumer content dependent on consumer tastes and preferences
- **Changing Consumer Preferences:** Reduction in consumer demand for some Media Network content, specifically decline in cable TV popularity among younger generations and households



## *Thesis*

We recommend EA based on:

- **Franchise Strategy:** Well known, strongly branded franchises that can cheaply be leveraged into additional content
- **Improving Margins:** Growth in digital sales as a percentage of total revenue is driving stronger gross margins by decreasing operating expenses
- **Market Overreaction:** Delay of Battlefield V title resulted in a market overreaction that was not rooted in long-term business fundamentals

## *Risks*

- **“Hit” Driven Industry:** Highly competitive with respect to consumer attention
- **Rapid Technological Changes:** Older products become outdated and act as an overall disruptive force
- **Cybersecurity & Piracy:** Poses constant risks due to the digital nature of EA's products

## *Thesis*

We recommended PLD based on:

- **Built-to-Suit Model:** Design customized distribution center, limits vacancies and productions expenses
- **International Expansion:** Built new facilities in China, Germany, France, and more; diversified Prologis' holdings; and has a presence (ownership or joint-venture) in 19 countries
- **Inorganic Growth:** Purchased one of their biggest competitors (DCT Industrial)

## *Risks*

- **International Relations:** Tariffs and trade disagreements
- **Rising Interest Rates:** Cost of borrowing makes it harder for business's to expand
- **International Demand:** A faster-than-anticipated rise in the supply of distribution facilities, which could lead to an excess capacity, a drop in demand for industrial space

## *Thesis*

We recommend LMT based on:

- **Profitable Business Model:** Highly competitive margins, consistent revenue growth, and achievable economics of scale
- **Significant Growth Potential:** Increase in European defense spending, increase in US defense spending, and strong government relationships
- **Game Changing Innovation:** Fostering innovative company mindset and potentially world-changing products under development

## *Risks*

- **Trade War:** International sales risks for abroad business, especially with tariff uncertainty
- **Customer Base:** They are very dependent on the US government for contracts and revenue, so any changes in government budgets can affect sales
- **Competition:** Bid protests among contracts have been increasing over the last few years

## *Thesis*

We recommend GOOG based on:

- **Strong Business Model:** Alphabet is an industry leader that will continue to expand their reach as it generates free cash flow
- **Future Focused:** Alphabet is focused on investing in artificial intelligence and cloud software to make data of the world easily accessible to everyone
- **International Growth:** Alphabet is looking east to Asia to continue their growth. Alphabet recently launched a new app called Google Pay in India which has already processed over a billion dollars in payments

## *Risks*

- **Internal Start-Ups:** The majority of Alphabet's "other bets" business segment are in risky markets
- **Competition:** New companies continue to emerge to compete with Alphabet and could capture some of Alphabet's predominant market share
- **Regulation:** Alphabet is the number one search engine in the world, and therefore has the risk of being considered a monopoly

# UnitedHealth Group Inc. – Thesis & Risks

## *Thesis*

We recommend UNH based on:

- **Dominant Market Share:** UNH has the dominant franchise and continues to gain share in Medicare Advantage, the most valuable growth market in managed care
- **Lower Cost:** UNH is typically a medical cost ratio leader in the managed care industry
- **M&A Growth:** Strategic investments like DMG and Catamaran add more doctors, and increase network access to hospitals/non-owned physicians, urgent care centers and more ambulatory surgical centers.

## *Risks*

- **High Regulation:** UnitedHealth Group is regulated by federal, state and local governments in the United States and other countries where they do business.
- **Medical Costs:** The profitability of our products depends in large part on our ability to predict, price for and effectively manage medical costs
- **Losses to Investment Portfolio:** Market fluctuations could impair their profitability and capital position; volatility in interest rates affects their interest income and the market value of our investment in debt securities of varying maturities

## *Thesis*

We recommend MSG based on:

- **New Venues and Organizations:** MSG plans to build two state of the art concert venues in Las Vegas and London; and recently acquired the professional esports team Counter Logic Gaming
- **The Potential Sale of MSG's Sports Teams:** Professional teams owned by MSG have high resale values, and will sell at a premium over their estimated value
- **Growth in Global Ticket & TV Revenue:** Concert ticket sales hit a record high in 2018 (up 12% from 2017); Record NBA and NHL TV deals were signed

## *Risks*

- **High levels of Competition:** There are many other New York sports teams competing for fans
- **Rely on Popularity of Their Professional Sports Teams:** Varying success of their sports teams can effects fan's willingness to pay for tickets
- **Outside Decision:** CBAs and television contracts are negotiated by the leagues

# Costco Wholesale Corporation – Thesis & Risks



## *Thesis*

We recommend COST based on:

- **Brand Loyalty:** Consistent membership; customer loyalty programs (Co-branded rewards credit card with Visa and Citi); and “Treasure hunt” shopping experience
- **Sales Growth and Expansion:** Same store sales growth; expansion plans; and in-store traffic increasing year over year
- **Increasing E-Commerce Penetration:** Gradually expanding its e-commerce capabilities in the U.S., Canada, U.K., Mexico, Korea, and Taiwan

## *Risks*

- Heavily **reliant on membership renewal** and consumer preferences
- **Tight margins** as a result of highly discounted merchandise
- Faces competitive **pricing pressure** from other mass retailers or grocers, for example, Amazon and Walmart

## *Thesis*

We recommend KMX based on:

- **Distribution Network:** 188 Active locations; added 15 stores in 2018; plan to add 15 more in 2019 and ultimately reach 300
- **Omnichannel System:** Serves the customer anywhere that they want to shop
- **Best in Class Used Car Retailer:** Largest used car retailer in the nation; and CarMax has a major focus on customer satisfaction

## *Risks*

- **Retail Competition:** Smaller companies have announced plans to compete with no-haggle pricing
- **Online Sales Competition:** Accessible online pricing information is more available
- **Evolving Marketplace:** Exposure to broad automotive market changes; and long-term innovations such as autonomous cars could pose threats without proper response

## *Thesis*

We recommend MSFT based on:

- **Diversified and Interconnected Product Mix:** Productivity and business process, intelligent cloud, and personal computing products and services; Products and services are interconnected, encouraging additional purchases and use
- **Acquisition Success:** Several recent acquisitions have contributed to significant growth for Microsoft
- **Emphasis on Innovation:** Worldwide life-changing innovative programs; Microsoft Innovation Centers; Catalyze industry growth through expanding open source platforms

## *Risks*

- **Significant Investments in Products and Services:** Investments in new technology is speculative and success depends on many factors
- **Cyber Security Attacks and Vulnerabilities:** Security of IT and customer data threats may occur; dynamic legal environment of global data movement; regulation of data management, data silos, and data centers
- **Highly Competitive Market:** Hardware from Sony, Nintendo; Software from Amazon and other developers

## *Thesis*

We recommend CHTR based on:

- **Broadband & Subscriber Superiority:** Charter should be able to maintain market-share gains and revenue growth on its superior broadband speeds compared with telecom, as well as a shift of Time Warner Cable and Bright House subscribers to its Spectrum-brand pricing and packaging
- **Mobile Growth & 5G Networks:** Over the longer term, Charter expects consumer savings from our mobile offerings to drive incremental cable become a more powerful retention tool
- **Increasing Synergy Among Acquisitions:** With the integration of its most recent acquisitions (Time Warner Cable/Bright House Networks) well underway

## *Risks*

- **Highly Competitive Market:** Charter Communication operates in a very competitive business environment, which affects their ability to attract and retain customers and can adversely affect their business, operations, and financial results
- **Increasing Programming Costs:** Can adversely affect their cash flow and operating margins
- **Lack of Technological developments:** The ability of some of their competitors to introduce new technologies, products, and services more quickly than they do may affect their competitive position

## *Thesis*

We recommend BXP based on:

- **Diversified Geographic Range:** Boston, Los Angeles, Washington DC, New York, and San Francisco
- **Reliable Tenant Base:** Industry leaders across Media & Tech, Finance, Retail, Government and Legal
- **Financial Performance:** Proactive pipeline development, and active investment movement (acquisition and disposition)

## *Risks*

- Downturns in the national, regional and local economic conditions
- Local real estate market conditions, such as oversupply or reduction in demand for office, hotel, retail residential space
- Tenant Default Risk